99TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPT. 99-775
Part 1

NEWARK PUBLIC LIBRARY

AUG 26 1986

U. S. GOVT. PUBS.
DEPOSITORY 376

NAVAL PETROLEUM RESERVES

AUGUST 8, 1986.—Ordered to be printed

Mr. DINGELL, from the Committee on Energy and Commerce, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 4843 which on May 15, 1986, was referred jointly to the Committee on Armed Services and the Committee on Energy and Commerce]

[Including cost estimate of the Congressional Budget Office]

The Committee on Energy and Commerce, to whom was referred the bill (H.R. 4843) to amend the Energy Policy and Conservation Act for the purpose of improving national energy policy, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

CONTENTS

	Page
The amendment	1
Purpose and summary	2
Background and need for legislation	3
Hearings	5
Committee consideration	5
Committee oversight findings	6
Committee on Government Operations	7
Committee cost estimate	7
Congressional Budget Office estimate	7
Inflationary impact statement	8
Analysis and discussion	8
Agency views	9
Changes in existing law made by the bill, as reported	12

Strike out all after the enacting clause and insert in lieu thereof the following:

71-006 O

Y1.1/8:

SECTION 1. PRODUCTION RATE AND MINIMUM PRICE FOR NAVAL PETROLEUM RESERVES.

(a) RATE OF PRODUCTION.—(1) Section 7422(c)(1) of title 10, United States Code, is amended by striking out subparagraph (B) and inserting in lieu thereof the following:

"(B) to produce, during any extension of a period under paragraph (2), such reserves—

"(i) at the maximum efficient rate consistent with sound engineering practices; or

"(ii) at a lesser rate consistent with sound engineering practices and the protection, conservation, maintenance, and testing of such reserves if the Secretary determines that the minimum price described in section 7430(b)(2) of this title cannot be attained for the United States share of petroleum produced from such Reserves;".

(2) Section 7422(c) of such title is amended by striking out paragraph (3).

(b) MINIMUM PRICE.—Section 7430(b) of such title is amended—

(1) by striking out "(b) Notwithstanding" and inserting in lieu thereof "(b)(1) Subject to paragraph (2) and notwithstanding"; and

(2) by adding at the end the following paragraph:

"(2) The Secretary may not sell any part of the United States share of petroleum produced from Naval Petroleum Reserves Numbered 1, 2, and 3 at a price less than the higher of—

"(A) 90 percent of the current sales price, as estimated by the Secretary, of comparable petroleum in the same area; or

"(B) the price of petroleum being purchased for the Strategic Petroleum reserve, minus the cost of transporting petroleum from the naval petroleum reserve concerned to the nearest storage area of the Strategic Petroleum Reserve, with adjustments for the difference in the quality of the petroleum being purchased for the Strategic Petroleum Reserve and petroleum being produced from the naval petroleum reserve concerned.".

(c) NOTICE PERIOD.—Section 7430(g)(2) of such title is amended by striking out "30 days" and "30-day" and inserting in lieu thereof "15 days" and "15-day", respectively.

Amend the title so as to read:

An Act to provide for a minimum price and an alternative production rate for petroleum produced from the naval petroleum reserves, and for other purposes.

PURPOSE AND SUMMARY

H.R. 4843 sets a floor price under which oil from the Naval Petroleum Reserve [NPR] cannot be sold.

Due to a legal requirement that the Reserve be produced at the maximum efficient rate and due to the volatility of the current oil market, oil from the Elk Hills Reserve has recently been sold at $4.90 per barrel, about $7 per barrel below posted prices in the region.

The Department of Energy [DOE] previously testified that the problem could be resolved administratively, but Secretary Herrington on July 24 asked Congress for rapid legislative action to prevent another round of underpriced sales.

H.R. 4843 as reported does two things:

It will prohibit the sale of Naval Petroleum Reserve oil (Elk Hills) for less than 90% of market value, or less than the price of SPR oil minus the cost of transporting the oil to the SPR.

If either of these conditions is met, the NPR can be produced at less than the maximum efficient recovery rate [MER]. Current law requires production only at MER.

It reduces from thirty to fifteen days the period of time that the Justice Department has to review NPR sales contracts for antitrust considerations. By reducing the period between receipt of bids and first delivery of oil, this will make bids more

accurately reflect market conditions at the time of sale. This action is also consistent with DOE's administrative action reducing the length of the contracts from 180 to 90 days.

Background and Need for the Legislation

Naval Petroleum Reserve No. 1 at Elk Hills, California, is a government owned oil field which has been produced at maximum efficient rate (MER) since 1977. It is located near Bakersfield, CA, and is the fourth largest domestic field.

The government is the majority owner, and Chevron U.S.A. Inc. is a 22% minority owner. Chevron and the government share production, revenues, and expenses in proportion to ownership share. The Department of Energy reported expenses of $111 million and revenues of $1.3 billion generated from the sale of the government's share of crude oil, natural gas liquids and natural gas in FY85.

BASIS FOR PRODUCTION AT ELK HILLS

The Naval Petroleum Reserves Production Act governs the production of oil from all three Naval Petroleum Reserves including Elk Hills. This Act specifies that every three years the President must review the need to produce Elk Hills oil and report his findings to Congress. This was last done on October 5, 1984, when the President recommended continued production at Elk Hills for the three year period between April 5, 1985, and April 4, 1988.

1. The Act requires that if the President recommends production (as opposed to minimum production), the production will be at the Maximum Efficient Rate (MER) which will permit economic development and depletion of NPR-1 without decreasing the amount of oil expected to be ultimately recovered. Production rates between MER and minimum are not allowed.

2. The Act also requires that notwithstanding any other provisions of law, the government's share of oil (excluding Department of Defense use) will be sold at public sale to the highest bidder, with a limitation on the amount any one bidder can purchase and with setasides for small refiners.

MER CONTROVERSY

On April 25, 1986, DOE's Inspector General [IG] reviewed MER and concluded:

> * * * for the past seven years (production) has exceeded the MER calculated by the Reserve's own engineers and principal consultants. According to studies prepared by the Department's technical engineers and consultants, between 90 and 130 million barrels of otherwise recoverable oil is at risk of being lost through over production during the life of the Reserve. Based on the average market value of $18 per barrel on March 6, 1986 the value of this oil was between $1.60 billion and $2.30 billion.

DOE rejects this IG assumption and claims that the Reserve was produced at the appropriate rate and no recoverable oil has been lost.

Likewise, Chevron rejects the IG report and has stated:

> "(The IG report) relied heavily on data collected prior to 1983 * * *. The IG report did not consider the recent state-of-the-art computer simulated studies done for several rate sensitive reservoirs in Elk Hills. These studies performed since 1985 have verified that the reservoirs have been produced at the appropriate MER and that no oil has been bypassed * * *. Historical reports, such as used by the IG, are not valid for calculating a MER of an evolving oil field.

The Subcommittee on Fossil and Synthetic Fuels previously reviewed the MER issue in a hearing on October 3, 1984.

RECENT SALES OF ELK HILLS OIL

The government's share of NPR–1 crude oil production is sold on the open market by competitive bidding. DOE solicits bids from interested parties who, in turn, submit bids showing the quantity of oil to be purchased on a daily basis. Bidders have been allowed to submit more than one bid. DOE awards contracts starting with the highest bid until all available oil is contracted for.

Prior to the current invitation to bid, the total price paid by purchasers for NPR–1 oil was a combination of a crude oil base price and a bonus or discount amount. The major oil companies operating in the central California area periodically send out to all oil producers a "Crude Oil Price Schedule." These schedules reflect the prices the oil companies are willing to pay for oil of a specified type and quantity and are the "posted" price. DOE receives these posted price schedules and computes an average based on the three highest offerings for oil of quality equal to NPR–1 oil and produced from nearby fields. These average prices, with appropriate adjustments, become DOE's crude oil base price for the period covered by the price schedules.

Historically the base price has been relatively stable. For example, from October 1, 1985 through January 31, 1986, the base price had fluctuated only between $24.88 and $24.95 per barrel. All bids for that period were at discounts from $0.19 to $1.16 below the base price. Prior to 1986, bids have typically been at a premium over the crude oil base price.

Oil prices in the spot market began to decline in early 1986, but the posted prices in California lagged this decline and did not reflect this price decrease until early February. When bid proposals for the April 1 to October 1, 1986 contract period were submitted to DOE, they were made on the basis of the January posted prices. The large discounts offered reflected the January disparity between posted prices and observed spot market prices.

Although DOE's base prices have fallen drastically and begun to approximate spot prices since the time of the bids, the contracted discounts for the April to October 1986 bid period remain constant. Consequently, the net prices to the government for this period are far below the market prices.

Fifteen companies were awarded contracts to purchase about 82,000 barrels per day of NPR–1 crude oil during this six-month

READEX FICHE best copy available

period. These companies bid discounts from the posted prices ranging from $0.97 to $6.98 per barrel.

In April and May, 1986, when the DOE base price dropped to about $13 per barrel, range, the prices for the lowest priced oil sold dropped as low as $6.30 per barrel. At this point DOE was paying $12.60 per barrel of oil delivered to the Strategic Petroleum Reserve.

On May 22, 1986 the Department announced action to reduce the effect of these problems associated with Elk Hills. Effective June 1, 1986, production of Elk Hills was cut from the 127,000 barrel per day level to 106,000 barrels per day. The 106,000 barrel level was determined to be the most conservative MER recommended in any of the DOE or contractor evaluations of MER; statutory restrictions prevent production less than MER. The Department also announced a total review of the sales procedure.

This reduction in production addresses the IG's concern with production above the MER. However, it does not correct the sale of oil for almost $7.00 less than the base price. DOE is applying the reduced production proportionally to all bidders (except DOD which will continue to receive its 15,000 barrels per day). Oil will still be sold with an almost $7.00 discount, only in lesser amounts. As of the middle of July, the base price had dropped to less than $12.00 per barrel, resulting in some sales of Elk Hills oil at prices as low as $4.90 barrel.

To prevent a recurrence of this pricing anomaly and loss of revenue in the coming six-month contract period, the Secretary of Energy has requested expeditious action of legislation to allow him to reduce production if necessary to avoid underpriced sales.

Hearings

The Committee's Subcommittee on Fossil and Synthetic Fuels held one day of hearings on H.R. 4843 on June 11, 1986. Testimony was received from eight witnesses, representing six organizations, with additional material submitted by five individuals and organizations. The hearing was a joint hearing with the Committee on Armed Services' Subcommittee on Investigations. Prior hearings had also been held relating to Elk Hills on November 3, 1981 and October 3, 1984.

Committee Consideration

On July 29, 1986, the Committee met in open session and ordered reported the bill H.R. 4843, as amended, by a voice vote, a quorum being present.

H.R. 4843 was introduced on May 15. A hearing on the bill was held on June 11, 1986. On Tuesday, July 22, the Committee considered a Committee Print as its recommendation to the Budget Committee under its instructions from the Budget Resolution for FY87. The operative language of H.R. 4843 was included in the Committee Print as Section 4405 of Subtitle E. Additionally, the Committee Print included new language that reduced from 30 to 15 days the length of time the Justice Department has for review of NPR oil purchase contracts for antitrust consideration.

Mr. Sharp offered a perfecting amendment to the Committee print on behalf of himself and Mr. Dannemeyer. The amendment reduced the Secretary's discretionary authority contained in H.R. 4843 as introduced. As introduced, H.R. 4843 would have allowed the Secretary to reduce production at the Naval Petroleum Reserves for energy policy reasons as well as low price. The Sharp-Dannemeyer amendment in the nature of a substitute allowed reduction in production below MER only if the Secretary of Energy could not sell the oil for a price above the higher of:

—90% of the market value of the oil as determined by the Secretary, or

—the price of SPR oil adjusted for quality differences minus the cost of transportation to the SPR.

The Sharp-Dannemeyer amendment in the nature of a substitute was unanimously adopted by a voice vote.

On July 24, 1986, the Secretary of Energy transmitted a letter to the Speaker of the House together with a proposed bill. (A copy of the Secretary's letter is included in the section of this report under agency comments.) As an alternative to the Administration's proposed language, the Secretary stated that "we can support enactment of the Energy and Commerce language as a freestanding measure. . . ." The Secretary also stated "I cannot overemphasize the importance of rapid Congressional action. . . ."

Therefore, on July 29, 1986, Mr. Sharp asked for the unanimous consent of the Committee to discharge the Subcommittee from further consideration of H.R. 4843 and to consider the bill at full Committee because the Committee had already acted on the issue in the Reconciliation mark-up. Mr. Sharp on behalf of himself and Mr. Dannemeyer, then offered an amendment in the nature of a substitute to H.R. 4843 which was substantively identical to the language already approved by the Committee. The amendment, however, placed the changes in Title 10 USC, the Naval Petroleum Reserve Production Act, as opposed to the Energy Policy and Conservation Act. H.R. 4843 as amended was reported by voice vote in open session with a quorum present.

Committee Oversight Findings

Pursuant to clause 2(l)(3)(A) of Rule XI of the Rules of the House of Representatives, the Committee's Subcommittee on Fossil and Synthetic Fuels conducted oversight proceedings on the Naval Petroleum Reserve as part of the legislative hearing on June 11, 1986. Previously, the Subcommittee on Fossil and Synthetic Fuels has conducted oversight hearings relating to the Naval Petroleum Reserve on November 3, 1981, October 3, 1984, and on March 4, 1986. Additionally, the Subcommittee reviewed four reports and one letter (included in Agency Comments) from the General Accounting Office:

1. Naval Petroleum Reserves Preliminary Analysis of Future Net Revenues from Elk Hills Production, GAO/RCED–86–169BR, June 1986.

2. Naval Petroleum Reserves, Sales Procedures and Price Received for Elk Hills Oil, GAO/RCED–86–163FS, May 8, 1986.

3. Naval Petroleum Reserve No. 1—An Assessment of Production Alternatives, GAO/RCED–84–180, July 30, 1984.

4. Issues Affecting Shutdown or Continued Production of the Elk Hills Naval Petroleum Reserves (EMD–82–14) October 26, 1981.

The Committee finds that the recent sale of oil from the Naval Petroleum Reserves has contributed to the loss of approximately $300,000 per day in revenues to the government for the period of the current contract. Without legislation such as H.R. 4843 this loss may continue.

Committee on Government Operations

Pursuant to clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings have been submitted to the Committee by the Committee on Government Operations.

Committee Cost Estimate

In compliance with clause 7(a) of rule XIII of the Rules of the House of Representatives, the Committee has reviewed the Congressional Budget Office Cost Estimate and agrees with their conclusions. However, the Committee also notes that at the start of the current bidding period the government may have lost as much as $400,000 per day. The reduction in production proportionately reduced this loss to approximately $300,000 per day but did not eliminate it. The floor price for NPR oil contained in this legislation is likely to prevent the future loss of revenue to the Treasury in an amount that cannot be estimated.

Congressional Budget Office Estimate

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 31, 1986.

Hon. John D. Dingell,
Chairman, Committee on Energy and Commerce, House of Representatives, Rayburn House Office Building, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has reviewed H.R. 4843, a bill to give the Secretary of Energy certain flexibility in the production of the Naval Petroleum Reserves, as ordered reported by the House Committee on Energy and Commerce, July 30, 1986. The bill provides the Secretary of Energy with discretion over the production rate for the reserves if petroleum produced from the revenues cannot be sold at or above a minimum price, which is defined in the bill. CBO estimates that this bill will not result in an impact on the federal budget.

H.R. 4843 establishes a minimum price for petroleum produced from the United States share of the Naval Petroleum Reserves [NPR]. Under this bill, NPR petroleum may not be sold at a price less than the higher of: (1) 90 percent of the current price for comparable petroleum in the same area, or (2) the price of petroleum being purchased for the Strategic Petroleum Reserve [SPR], minus the cost of transporting petroleum from the NPR to the SPR. The Secretary of Energy is barred from selling NPR petroleum at a

price less than the minimum price. To avoid overproduction when the minimum price cannot be met, the Secretary is authorized to produce the reserves at a rate lower than the maximum efficient rate, consistent with sound engineering practices. Under current law, the NPR must be produced at the maximum efficient rate.

Enactment of H.R. 4843 would have a budget impact, relative to current law, only if NPR petroleum could not be sold at or above the minimum price, as defined in the bill. The potential budget impact would be a loss of receipts in the short term as a result of reducing oil production from the NPR. However, it is unlikely that the minimum provision contained in H.R. 4843 would be triggered unless domestic petroleum prices drop significantly from their current levels. CBO does not assume such price fluctuations in its projections, and thus CBO projects no impact from this provision. Furthermore, the Department of Energy is modifying its procedure for soliciting bids and selling petroleum from the NPR. Without a change in current law, this change in procedure would reduce the possibility of petroleum sales at below-market prices, even if prices were to fluctuate.

No costs would be incurred by state or local governments as a result of enactment of this bill.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

RUDOLPH G. PENNER, *Director.*

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee makes the following statement with regard to the inflationary impact of the reported bill:

The Committee does not foresee any inflationary impact of a material nature as a result of enactment of this legislation.

ANALYSIS AND DISCUSSION

H.R. 4843 prohibits the sale of Naval Petroleum Reserve oil, including Elk Hills oil, for less than the higher of two prices:

—90 percent of the current market value of similar quality oil in California as estimated by the Secretary based on the best information available, or

—the price of oil acquired for the SPR under market transactions adjusted for quality differential minus the cost of transportation from the NPR to the SPR.

The price of oil acquired for the SPR is the price for market transactions and not special low or high prices that might be arranged on a government to government basis which take into account international political or financial considerations, or prices based on government to government barter transactions for other commodities or any stripper production that may be purchased at a premium price for national energy policy considerations.

If no oil is acquired for SPR under market transactions, then the Secretary should estimate this price based on the best available information.

All SPR oil prices are for oil delivered to an SPR terminal and are not wellhead, index, or other prices.

If the Secretary is unable to obtain a price above these two floor prices, he is now allowed, but not required, to reduce NPR production below Maximum Efficient Recovery rate [MER]. Consistent with other provisions of law the Committee notes that the Secretary has other options besides reduction of production including:

—exchange of Elk Hills oil for SPR oil to be put in the SPR,
—storage of Elk Hills oil in any appropriate storage site including above ground tanks, tankers or pipelines, (and in the case of natural gas, reinjection into the field)
—shipment to the SPR, and
—transfer to the Department of Defense.

The Committee expects that the Secretary of Energy will pursue these options prior to a reduction in production. If a reduction in production is necessary, the Committee expects that it will be the minimum reduction necessary to achieve the floor price.

When determining whether a sale is potentially above or below these floor prices, the determination will be made for each separate bid for the oil so that the lowest bids will be rejected. The Committee recognizes that companies may submit more than one bid for oil.

The Committee also reduced the period of Justice Department review of NPR contracts for antitrust consideration from thirty to fifteen days. The Committee was advised that fifteen days is consistent with the period Justice actually needs to review the contracts. This action will reduce the length of time between receipt of bids and delivery of the first oil, allowing bidders to reflect more accurately their expectation of market values at the time of delivery.

Agency Views

1. Letter from the Secretary of Energy to the Speaker of the House of Representatives.
2. GAO Letter from the General Accounting Office to the Chairman Subcommittee on Fossil and Synthetic Fuels, Committee on Energy and Commerce.

The Secretary of Energy,
Washington, DC, July 24, 1986.

Hon. Thomas P. O'Neill, Jr.,
Speaker of the House of Representatives, Washington, DC.

Dear Mr. Speaker: I am today proposing legislation to give the Department of Energy the flexibility to adjust the production rate of the Naval Petroleum Reserves by amending Section 7422(c) of title 10, United States Code, which concerns Naval Petroleum Reserves numbered 1, 2, and 3.

Because it is designed to address problems caused by today's unstable oil market, I urge the Congress to act quickly on this legislation.

We find this legislation necessary because current law requires that the Naval Petroleum Reserves [NPR] be produced at their maximum efficient rates [MER]—even at a time when world oil

prices are low and the market is extremely volatile. This requirement has forced the production and sale of Government-owned oil at prices below its true value.

This proposed legislation would help solve this problem by giving the Department the ability to respond more effectively to rapid changes in the oil market. Essentially, it would allow the Department to set Naval Petroleum Reserve production rates below MER—if it is found that this lower production rate would ultimately result in a long-term revenue benefit to the Government and to America's taxpayers. Because this authority is needed as a temporary measure for dealing with today's extreme market fluctuations, the legislation is drafted to be effective for a nine month period, at which time the current market volatility should be diminished. The legislation would also prohibit setting a production rate below the level necessary to protect, conserve, maintain and test the Reserves. This provision would ensure that oil recovery from the Reserves is not jeopardized.

I have already ordered a series of administrative steps to improve the Department's management of the NPR—a thorough examination of alternative sales procedures, the use of the most conservative engineering judgments for establishing "maximum efficient rates, and an independent engineering evaluation of production rates at the Elk Hills Naval Petroleum Reserve. These steps by themselves, however, cannot eliminate the problem of producing oil at a time when supplies are plentiful and prices are low.

By revising the existing MER requirement, Congress would greatly improve the Department's ability to manage the Naval Petroleum Reserves in an efficient and businesslike manner. Today's rapidly changing oil market demands a more flexible system. Moreover, placing the NPR on a more businesslike basis will enhance the prospects for eventual divestiture of these assets as called for in both the President's budget and S. Con. Res. 120, the Congressional Budget Resolution.

We should not continue selling large quantities of NPR oil at today's low prices—America's taxpayers deserve a better deal. This legislation would help guarantee them that better deal.

Congressional action on this matter is required urgently. Contract awards in the next bidding cycle at Elk Hills are scheduled to be made by September 10. Given even the expedited bidding procedures we are now employing, we would have to issue the solicitation within the next few days.

I recognize that action was taken recently by the House Committee on Energy and Commerce, which addresses this problem in the context of the reconciliation bill. I remain concerned, however, about the timing of that measure. Accordingly, I recommend that the Congress enact the enclosed legislation, as freestanding legislation, as soon as possible. Alternatively, we could support enactment of the Energy and Commerce language as a freestanding measure, provided it is clarified to apply only to "crude oil" rather than the more general term "petroleum." I cannot overemphasize the importance of rapid Congressional action to assure that the taxpayers of this country receive a fair return from the Naval Petroleum Reserves.

The Office of Management and Budget has advised us that from the standpoint of the President's programs, there is no objection to the presentation of this proposal. Enacting this legislation would not increase the Department of Energy's budgetary requirements over the next five fiscal years.

Yours truly,

JOHN S. HERRINGTON.

U.S. GENERAL ACCOUNTING OFFICE,
RESOURCES, COMMUNITY, AND
ECONOMIC DEVELOPMENT DIVISION,
Washington, DC, July 30, 1986.

B-208196.

Hon. PHILIP R. SHARP,
Chairman, Subcommittee on Fossil and Synthetic Fuels, Committee on Energy and Commerce, House of Representatives.

DEAR MR. CHAIRMAN: In response to your continued concern about the prices received for oil sold from the Elk Hills Naval Petroleum Reserve (NPR-1), we updated at your request the information in our fact sheet to you entitled "Naval Petroleum Reserves: Sales Procedures and Prices Received for Elk Hills Oil" (GAO/RCED-86-163FS, May 9, 1986). Specifically, we obtained information on the prices received for NPR-1 oil through July 22, 1986. This oil is sold under 6-month contracts covering the period April 1, 1986, through October 1, 1986.

In our May 9, 1986, fact sheet, we discussed the basis and procedures under which the Department of Energy [DOE] sells oil at NPR-1. We noted that oil was being sold at contracted discounts from a DOE base price composed of the average of the three highest posted prices offered by major oil companies in the central California area for comparable quality oil. As of April 23, some of the NPR-1 oil was being sold for as little as $6.30 per barrel. Since that time NPR-1 oil prices under these contracts have continued to decline as the posted prices for comparable oil declined.

At the time we issued our fact sheet, DOE's base price for NPR-1 oil was $13.18. Since then, posted prices and DOE's base prices have been adjusted downward several times. For example, on June 27, 1986, DOE's base price dropped to $13.02. When the contracted discounts and appropriate adjustments were applied, NPR-1 oil prices ranged from a low of $5.98 per barrel to maximum of $10.43 per barrel. On July 9, 1986, DOE's base price dropped to $11.93. Under this base price, the lowest price paid for NPR-1 oil as of July 22, 1986, was $4.90 per barrel for 4,451 barrels of oil delivered from July 15 to July 22, 1986, to Alliance Oil and Refining Company. Other prices paid under this base price ranged as high as $9.31 per barrel.

If you have any further questions or need additional information, please contact Cliff Gardner on 275-4958.

Sincerely yours,

JOHN W. SPRAGUE
(For James Duffus III, Associate Director).

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 10, UNITED STATES CODE

* * * * * * *

Subtitle C—Navy and Marine Corps

* * * * * * *

PART IV—GENERAL ADMINISTRATION

* * * * * * *

CHAPTER 641—NAVAL PETROLEUM RESERVES

* * * * * * *

§ 7422. Administration

(a) * * *

* * * * * * *

(c)(1) In administering Naval Petroleum Reserves Numbered 1, 2, and 3, the Secretary is authorized and directed—

(A) to further explore, develop, and operate such reserves;

[(B) to produce such reserves at the maximum efficient rate consistent with sound engineering practices for a period ending not later than April 5, 1982;]

(B) to produce, during any extension of a period under paragraph (2), such reserves—

(i) at the maximum efficient rate consistent with sound engineering practices; or

(ii) at a lesser rate consistent with sound engineering practices and the protection, conservation, maintenance, and testing of such reserves if the Secretary determines that the minimum price described in section 7430(b)(2) of this title cannot be attained for the United States share of petroleum produced from such Reserves;

* * * * * * *

(C) during such production period or any extension thereof to sell or otherwise dispose of the United States share of such petroleum produced from such reserves as provided in section 7430 of this title; and

(D) to construct, acquire, or contract for the use of storage and shipping facilities on and off the reserves and pipelines and associated facilities on and off the reserves for transport-

ing petroleum from such reserves to the points where the production from such reserves will be refined or shipped.

Any pipeline in the vicinity of a naval petroleum reserve not otherwise operated as a common carrier may be acquired by the Secretary by condemnation, if necessary, if the owner thereof refuses to accept, convey, and transport without discrimination and at reasonable rates any petroleum produced at such reserve. With the approval of the Secretary, right-of-way for new pipelines and associated facilities may be acquired by the exercise of the right of eminent domain in the appropriate United States district court. Such rights-of-way may be acquired in the manner set forth in the Act of February 26, 1931 (40 U.S.C. 258a–258e), and the prospective holder of the right-of-way is "the authority empowered by law to acquire the lands" within the meaning of that Act. Such new pipelines shall accept, convey, and transport without discrimination and at reasonable rates any petroleum produced at such reserves as a common carrier.

[(3) The production authorization set forth in paragraph (1)(B) of this subsection, in the case of Naval Petroleum Reserve Numbered 1, is conditioned upon the private owner of any lands or interests therein within such reserve agreeing with the Secretary to continue operations of such reserve under a unitized plan contract which adequately protects the public interest; however, if such agreement is not reached by July 4, 1976 the Secretary is authorized to exercise the authority for condemnation conferred by section 7425 of this chapter.]

* * * * * * *

§ 7430. Disposition of products

(a) * * *

* * * * * * *

[(b) Notwithstanding *(b)(1) Subject to paragraph (2) and notwithstanding* any other provision of law, each sale of the United States share of petroleum shall be made by the Secretary at public sale to the highest qualified bidder, at such time, in such amounts, and after such advertising as the Secretary considers proper and without regard to Federal, State, or local regulations controlling sales or allocation of petroleum products. Each sale of the United States share of petroleum shall be for periods of not more than one year, except that a sale of natural gas may be made for a period of more than one year.

(2) The Secretary may not sell any part of the United States share of petroleum produced from Naval Petroleum Reserves Numbered 1, 2, and 3 at a price less than the higher of—

(A) 90 percent of the current sales price, as estimated by the Secretary, of comparable petroleum in the same areas; or

(B) the price of petroleum being purchased for the Strategic Petroleum Reserve, minus the cost of transporting petroleum from the naval petroleum reserve concerned to the nearest storage area of the Strategic Petroleum Reserve, with adjustments for the difference in the quality of the petroleum being pur-

chased for the Strategic Petroleum Reserve and petroleum being produced from the naval petroleum reserve concerned.

* * * * * * * *

(g)(1) * * *

(2) No contract or operating agreement may be made, issued, or executed under this chapter until at least [30 days] *15 days* after the Secretary notifies the Attorney General of the proposed contract or operating agreement. Such notification shall contain such information as the Attorney General may require in order to advise the Secretary as to whether such contract or operating agreement may create or maintain a situation inconsistent with the antitrust laws. If, within such [30-day] *15-day* period, the Attorney General advises the Secretary that a contract or operating agreement may create or maintain a situation inconsistent with the antitrust laws, then the Secretary may not make, issue, or execute that contract or operating agreement.

* * * * * * * *

SUPPLEMENTAL VIEWS OF HON. MICHAEL G. OXLEY ON H.R. 4843—SALE OF OIL FROM THE NAVAL PETROLUEM RESERVE

The Committee has approved legislation the Administration believes is necessary to ensure that crude oil from the government's share of the Naval Petroleum Reserves is not sold at below-market prices. We hope this will ameliorate the short-term problems the Energy Department has encountered in fulfilling its statutory duty to sell NPR oil to private companies.

There is, however, a long-term problem with NPR which the Congress should consider as soon as possible. Simply put, the problem is that the government continues to own and operate any portion of these oil fields. Since 1976, this asset has been utilized as a commercial oil field—which means that the Government of the United States has been in the commercial oil business. It ought to get out of this business. It has no business being in the oil business. Even liberal commentators such as the Washington Post, which generally opposes privatization of government assets, supports the sale of NPR. In a February 27, 1986, editorial the Post concludes that the decision on this issue "is not a hard choice" and calls the NPR a "national anomaly."

About the only rational argument made against selling the NPR is that such a sale should not be made under current depressed market conditions. But this argument fails to take account of the actual economic calculus that will be made by bidders under any current market situation. Bidders will assess the value of the NPR based upon expectations as to future production and stream of revenues. Today's low price will not be determinative of how private bidders will value the NPR as a long-term asset. Further, any sale of the NPR could be conditioned upon obtaining a price the Congress believes represents fair deal for the taxpayers of this Nation.

We trust that the Members of this Committee may have the opportunity to approve appropriate legislation to place these oil fields in the hands of the private sector—where they belong.

MICHAEL G. OXLEY.

O